



**Quarterly Narrative Report (January 1, 2002-March 31, 2002)
Technical Assistance to the Bai Tushum Financial Foundation
Cooperative Agreement 116-A-00-0100027-00**

**Submitted to
Lyuba Gonchar
Cognizant Technical Officer
USAID/CAR
Almaty, Kazakhstan**

**Submitted by Muhammad Junaid
ACDI/VOCA Long-term Advisor to
Bai Tushum Financial Foundation
Bishkek, Kyrgyz Republic
May 21, 2002**

This report covers the implementation status of the Cooperative Agreement 116-A-00-0100027-00 between USAID/CAR and ACDI/VOCA for the period January 1, 2002 through March 31 2002 (first quarter of the year 2002).

The Bai Tushum Financial Foundation (BTFF) continues to receive long-term technical assistance from ACDI/VOCA's long-term consultant, Muhammad Junaid. In addition during the first quarter of 2002, the following ACDI/VOCA head office staff consultants provided on-site consultancy and oversight of the project.

- Naya Kenman Director E&A Division
- Elena P. Nelson Director for Rural Finance
- Dennis DeSantis, Senior Vice President for Europe and Asia.

Dennis DeSantis provided overall supervision and strategic guidance while Naya Kenman reviewed the financial and technical status to the project. Elena P. Nelson provided short-term technical assistance in the strategic planning area; reviewed the implementation of the BTFF annual plan, and conducted training sessions for loan officers.

Founders' Equity

To meet the increased demand for the BTFF loan products, ACDI/VOCA injected further funds amounting to 453,250 dollars for increasing the lending capital. With this addition, the total Founders' contribution in the BTFF rises to the level of 1.809 million dollars. The following table shows the Founders' contribution as of 31 March 2002:

	ACDI/VOCA	CARITAS	Total (US \$)	ACDI/VOCA	CARITAS	Total (US\$)	Grand Total (US\$)
	2000-2001			2002			
Cash (US\$)	405,500	53,000	458,500	554,500	0,00	554,500	1,013,000
Fixed assets (US\$)	15,500	27,000	42,500	0,00	0,00	0,00	42,500
Collectible loan Portfolio (\$)	525,000	74,500	599,500	0,00	0,00	0,00	599,500
Cash through collection of loans under agency agreement	85,000	49,000	134,000	13,500	6,500	20,000	154,000
Grand Total (US\$)	1,031,000	203,500	1,234,500	568,000	6,500	574,500	1,809,000

Lending Activity

The BTFF continued to build a superior quality loan portfolio during the first quarter of 2002. Currently Bai Tushum provides loans for agricultural inputs, acquiring small agricultural implements, livestock breeding, dairy production, animal fattening, meat production, meat processing, agricultural and food processing units, agribusinesses, and a wide range of small and medium enterprises (SMEs). All loans must meet the criteria of generating employment opportunities for the borrowers and their communities as well as producing sound investment for the BTFF.

During the first quarter of 2002, the BTFF disbursed 310 new loans with a current value of about 0.507 million dollars (ROE 47.70 soms = 1US\$). Size of portfolio increased by 18% -- from 1.185 million dollars (as of 31 Dec 2001) to 1.400 million dollars (as of 31 March 2002). Number of active borrowers increased from 700 to 873 (25%). Number of loan officers had a corresponding increase from 12 to 15 (25%).

A summary of new loans disbursed during the quarter is presented in the table below:

New loans disbursed (January 1,2001-March 31, 2002)				
	Chui	Osh	Jalalabad	Total for BTFF
Total Loan Amount (\$US)	80,625	258,833	164,000	503,458
Crop production (\$US)	23,125	44,583	23,104	90,812

Livestock (\$US)	4,375	149,792	82,250	236,417
SME (\$US)	53,125	64,458	58,646	176,229
Total number of loans	42	174	94	310
Crop production	6	32	13	51
Livestock	3	104	48	155
SME	33	38	33	104

The portfolio quality improved considerably during the quarter. The following table presents a comparison of the portfolio indicators for the current and the past quarters.

Indicators	December 31, 2001	March 31, 2002
Active Portfolio - US\$ (million)	1.185	1.400
Number of active clients	700	873
Loans disbursed during the quarter: Number	195	310
Loans disbursed during the quarter : Amount -US\$ (million)	0.369	0.507
Portfolio at risk	8.4%	6.8%
Operational sustainability	117%	132%
Quarterly portfolio growth (comparing to the previous quarter)	11%	18.2%
Average Loan Size (US\$)	1693	1,604
Reserve ratio	7.3%	8.3%

Expansion

During the first quarter of 2002, the BTFF opened the sub-offices in the Kara-Suu, Aravan, and Nookat rayons in the Osh Oblast. This will expand the BTFF's outreach as well as helping the communities in these rayons.

BTFF also completed feasibility on opening a sub office in Bazaar Kurgan rayon in Jalalabad oblast. This sub-office is likely to be opened during the current year

Issyk-Kul region offers tremendous opportunities for the tourism industry. These opportunities can be translated into increased level of seasonal employment in the summer. BTFF has worked with the clients in this area on experimental basis during the first quarter and now plans to open a sub-office in Cholpon Ata to finance the tourism related SMEs in the area. This sub-office will report to the Bishkek branch of the BTFF, and will become operational in the second quarter.

BTFF actively collaborates with USAID contractors, donors, and international financial institutions to enhance the impact of its services. During the first quarter, the BTFF held discussions with Pragma SME project in Osh that are likely to result in an MoU between the SME project and BTFF. Under this MoU BTFF will give the preferential terms including lower interest rates and longer period of loan to the customers who have worked with the SME project. For example the customers who have been trained by Pragma will enjoy the same preferential terms as the BTFF repeat borrowers.

IFDC has established a small guarantee fund for the fertilizer traders to partially (up to 20%) guarantee the loans that these traders might obtain from different financial institutions. Since this mechanism reduces the credit risk for BTFF, it will provide loans to such borrowers at lower interest rates.

Blue Orchard Fund has expressed interest in providing a credit-line to the BTFF on commercial terms. BTFF already meets or exceeds the standards set by this fund to access the commercial finance. Blue Orchard has requested the BTFF to obtain an external rating, and currently BTFF is working to obtain this rating. BTFF is requesting CGAP to fund this exercise.

Delinquency Management

The BTFF employs all possible means to recollect its loans, both disbursed by the BTFF after its establishment as well as loans transferred by its founders under the agency agreement. During the quarter BTFF has done considerably well in collecting its bad loan portfolio through the courts. During the first quarter of 2002 BTFF initiated 11 law-suits to recover its delinquent loans. It is expected that this action will result in recovery of about 15000 US dollars.

During quarter the courts decreed nine cases in favor of the BTFF. In one case the defendant agreed on out of court settlement, while in two cases the courts authorized the foreclosure of property. Net cash collection exceeded 8,500 dollars as a result of legal action.

To improve the legal activity, the legal advisor organized a two days training seminar for the BTFF law officers.

The delinquency management team of the BTFF also reviewed the entire overdue loan portfolio (including portfolio assigned to the BTFF under agency agreement by the founders) during the first quarter of 2002. As a result of this review the BTFF decided to write off a portion of the uncollectible loans.

Corporate Governance

Supervisory Board of the BTFF (equivalent to Board of Directors) held a meeting on 4 February 2002, to provide oversight to the BTFF's strategic and operational activity.

The Board reviewed the financial activity of the Foundation for the year 2001 and approved the annual accounts. The Board also discussed and approved the budget and planning issues, and approved the lending criteria of the year 2002.

Due to his departure from Kyrgyzstan, representative of SDC in the Board Mr Marcus Muller has been replaced by Mr. Stefan Bruni, Economic Programs Officer at the Swiss Coordination Office, Bishkek.

Management Information Systems (MIS)

After the satisfactory completion and testing of the BTFF accounting software in compliance with the international accounting standards and guidelines from the National Bank of the Kyrgyz Republic (NBKR), the BTFF continued to work on developing a reliable loan Tracking System (LTS) during the first quarter of 2002.

LTS is substantially complete now and the branches use this program in their daily operations. During the last quarter, training for the branch accountants, loan officers, and other users was conducted. The MIS was also examined for the accuracy, and was approved by the BTFF's technology committee. ACDI/VOCA Senior Internal Audit Consultant provided independent evaluation of the system.

During the period under report the BTFF also developed and translated *MIS User Manual*. The manual has been made available to the branches for reference purposes.

During the current quarter the project will develop the detailed MIS reports to monitor the portfolio. Also, during this phase the selected reports will be made available in English. It is expected that this task will be completed within the projected timeframe by end of June 2002.

Marketing and Promotion for the BTFF

Website: The BTFF is currently developing a web-site, which will help promote the activities of BTFF and help reach a larger number of customers, donors and other stakeholders. The site is under construction and is expected to be launched during June 2002.

BTFF Anniversary: To celebrate the first anniversary of its incorporation as a Kyrgyz micro/rural finance institution, the BTFF hosted a reception for its clients, donors, founders, bankers and other stakeholders on 26 February 2002. Ambassador John O'Keefe (US ambassador to Kyrgyzstan) was the Guest of Honor at this occasion. The Ambassador highlighted the US Government's policy to promote economic development using microfinance as a vehicle, and reiterated his support to the BTFF.

Stefan Bruni, the Economic Programs Officer of the Swiss Agency for Development and Cooperation reconfirmed the Swiss Government's support for the project. The NBKR Deputy Chairperson applauded BTFF and ACDI/VOCA for creating a sustainable rural/microfinance institution. She also lauded ACDI/VOCA for contribution in developing the law on microfinance institutions in the country.

Muhammad Junaid, the long-term technical advisor to BTFF, presented an overview of the program and successes that the foundation has accomplished so far.

Gulnara Shamshieva, the General Manager of the program introduced the successful customers of the BTFF, and told how they have changed their lives with help from the BTFF. Three successful customers also spoke on this occasion.

Publications and Seminars: BTFF participates in all the relevant activities of the donor community, particularly events organized by the USAID and its contractors. During the first quarter BTFF participated in the following activities:

USAID Land Reforms project news letter published an interview with Gulnara Shamshieva, General Manager of the BTFF. This interview was carried in both print and online editions.

In addition BTFF participated in the seminar conducted for newly appointed heads of village boards. The seminar was dedicated to the issues of land reform. BTFF distributed information on its activities.

BTFF also participated in the 1st Annual Seminar-Fair on Food and Processing Industries in the Southern Kyrgyzstan held on March 29, 2002 in Osh. This was organized by the USAID SME project. BTFF had an impressive stall and distributed a lot of useful information and promotional materials.

New Loan Products

BTFF has identified lack of collateral as a major constraint that prevents the SMEs to access commercial credit. Few financial institutions are willing to finance the aging machinery and equipment for the agro-processing SMEs. In order to overcome this constraint, the BTFF plans to introduce micro leasing as a source of finance for the micro entrepreneurs to modernize their businesses.

Leasing can be an important financial instrument for Kyrgyzstan's rural population in that it offers an access to equipment and machinery without the need for large amounts of collateral. In general, leasing will mitigate constraints and contribute to 1) improved agricultural production in terms of capacity and product quality in select sectors and, in turn, 2) creation of substantial and sustainable employment opportunities for Kyrgyz through the growth of

small and medium enterprise activity. Through this instrument BTFF can develop longer term financing mechanisms for its clients and increase their borrowing capacity.

BTFF is currently working with IFC Leasing Project for Central Asia to introduce a micro-leasing product for its customers. An MOU is under negotiation, under which IFC will provide technical assistance to the BTFF in accounting and legal areas.

ACDI/VOCA plans to conduct a market assessment and product development workshop for the ACDI/VOCA rural/microfinance projects in Central Asia in June 2002. Mr Olaf Kula, ACDI/VOCA Senior Microfinance Advisor will lead this workshop while Janice Stallard, Muhammad Junaid and Jillann Richardson will facilitate the various sessions.

Currently, Kyrgyz parliament is considering a new leasing law that would likely provide a legal and regulatory framework for growth of the leasing industry in the country. ACDI/VOCA technical advisor participated in the various roundtables that deliberated over the draft.

Internal Audit and Controls

ACDI/VOCA's senior internal audit and internal controls consultant Joseph Mc Fadden provided specialized technical assistance for improving the internal controls and internal audit procedures for within the BTFF. He reviewed the Foundation's policies and procedures and, together with the Foundation's internal auditor, conducted internal audit for the branches and head office. He also provided guidelines to develop the internal audit manual. This Manual enumerates the objectives, and establishes the procedures of the Foundation's Internal Audit Department. Due to the interaction of the Internal Audit Department with all functions of the Head Office and Branches, all Foundation personnel will be required to have a good understanding of this Manual and provide the cooperation required for the Internal Audit Department to meet its objectives.

This manual recognizes the principle that the Internal Audit Department and staff must be completely independent of all other departments/operations of the Foundation in order to effectively perform its function of conducting an objective review and evaluation of the Foundation's procedures and controls. It also requires the Internal Audit Department reports functionally to the Chairperson of the Supervisory Board and, administratively to the General Manager of the BTFF.

External Audit

Under Kyrgyz law, BTFF is not required to receive an external audit. However, in order to maintain the transparency and the higher quality of the financial and management controls, the Foundation decided to have the internal controls and annual accounts audited by an outside, reputable bank auditing firm, *Jacob's Audit*.

Jacob's Audit has submitted their audit report to the Supervisory Board of the Foundation. This report reveals that BTFF financial activities are operating cleanly.

Legislation

ACDI/VOCA's long-term advisor has been working with the National Bank of the Kyrgyz Republic, USAID, the President's Administration, and other stakeholders on the draft MFI law to ensure it supports international MFI best practices. He prepared a summary of the final comments on behalf of the microfinance institutions that was presented to Mr Sulatnov, chairman of the parliamentary committee on banking and finance. It is expected that the law will be passed within this quarter.

On 28 February the Technical Advisor attended a roundtable discussion on the new Collateral laws organized by Ministry of Justice and ARD/CHECCI jointly.

Training

During the first quarter the BTFF internal auditor attended one-week training on the International Accounting Standards while the Chief Accountant attended a two-week training seminar in Financial Management. Both these events were organized by *Jacobs Audit*. In addition, the Credit Manager of the BTFF participated in training on business planning using the *Microfin* in Tbilisi.

BTFF Accounting Department held a 2-day training seminar in Bishkek for the branch accountants. This training event focused on using the information systems and the latest accounting policies of the BTFF.

ACDI/VOCA organized training seminars for the Osh, Jalalabad, and Chui branches for the loan officers to provide them insight into the business strategic planning process.

Interaction with the Kyrgyz Government

BTFF chairperson participated in a Roundtable organized by the Minister of Agriculture to review the development of the agro processing enterprises in Kyrgyzstan. She gave presentation on BTFF's role in the Kyrgyz economy.

BTFF management and Technical Advisor also held separate meetings with Osh and Jalalabad governors to solicit more cooperation from the oblast administration in achieving the program objectives.

Information Exchange with other MFIs

BTFF investigates the borrowers' credit history as a means of assessing their creditworthiness. Sometimes this process results in delays to process loan applications. During the first quarter, the BTFF initiated as well as participated in initiatives aimed at exchanging the credit information on the borrowers. It presented a proposal to the various MFIs operating in rural areas including KAFC, Mercy Corps, FINCA and a couple of commercial banks for exchanging the lists of delinquent borrowers.

On its part, BTFF has prepared a list of its own delinquent borrowers and has offered to share it with the other market players.

TACIS has invited the banks and financial institutions to join in their initiative to launch a credit bureau. Although this initiative is biased toward the commercial banks, the MFIs can also benefit from participation. BTFF technical advisor has been requested to be a member of the working group.